

Makhuduthamaga Local Municipality

Audit report

30 June 2017

Report of the auditor-general to the Limpopo provincial legislature and the council of Makhuduthamaga Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Makhuduthamaga Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Makhuduthamaga Local Municipality as at 30 June 2017 and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 37 to the financial statements, the corresponding figures for property, plant and equipment have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.
8. As disclosed in note 42 to the financial statements, the corresponding figures for irregular expenditure have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material impairments

9. As disclosed in note 5 to the financial statements, material losses to the amount of R298 145 767 were incurred as a result of impairment provisions for doubtful debts.

Unauthorised expenditure

10. As disclosed in note 40 to the financial statements, the municipality incurred unauthorised expenditure to the amount of R46 876 841 as a result of impairment of receivables from non-exchange transactions.

Irregular expenditure

11. As disclosed in note 42 to the financial statements, the municipality incurred irregular expenditure amounting to R10 888 057 as a result of contravention of supply chain management regulations.

Other matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of accounting officer

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives

presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
KPA 2: Infrastructure development	x – x
KPA 3: Local Economic Development	x – x

22. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Key Performance Area 2: Infrastructure development

Various indicators

24. The source information and method of calculation for the achievement of the planned indicators below were not clearly defined and the targets as determined during planning for these indicators were not specific in clearly identifying the nature and required level of performance, were not measurable and did not specify the period or deadline for delivery, as required by the Framework for Managing Programme Performance Information (FMPPi).

Project	Key Performance indicators	Target
Maintenance of road and storm water infrastructure	Completed maintenance of roads and storm water infrastructure	100% of maintenance plan implemented
Maintenance of electricity infrastructure	Completed maintenance of electricity infrastructure	100% of maintenance plan implemented
Repairs and Maintenance other assets	Completed Maintenance of Municipal facilities	65% of maintenance plan implemented
Solid waste collection and management	1. Plan in place (IWMP)	Develop and approve IWMP
	2. Landfill sites maintained	Monthly maintenance of land fill sites minimum resources produced
	3. Minimum resources procured	
	4. Operations started (collections)	
Upgrading of sports facilities (Masemola, Peter Nchabeleng and Jane Furse)	5. Plan adopted	3 sports facilities upgraded and maintained

25. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Project	Key Performance Indicators	Reported achievement	Audited value
Construction of Kholokotela Internal road 5.5 KM (multi-year)	5.5km of road completed	Construction in progress	3.3 KM
Construction of access from GLEN Cowie to Moloi (5KM)	5km of road completed	5 KM	0 KM
Construction of access road from R 579 to Mashining Main reservoir 2.1 KM Multi year	2.1km of road completed	600M	1.1 KM
Repairs and maintenance other assets	Completed maintenance of Municipal facilities	65%	33.33%
Construction of access road to mashupye village 2.6 KM	2.6km of road completed	2 KM	1.5 KM
Road safety campaigns	Campaign for awareness, and changing attitudes & behaviour conducted	2	0
Development of traffic management plan	Plan in place and adapted	1 Approved by council	Not approved
Development of law enforcement plan	Plan in place and adopted	1 Approved by council	Not approved

Key Performance Area 3: Local economic development

26. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not adequately designed, the indicator listed below is not well defined and the targets listed below in the indicator were not verifiable as the municipality does not have a formal process to collect reliable information for the target, as required by the FMPPI. This was due to a lack of technical indicator descriptions and formal standard operating procedures or documented system descriptions. I was unable to validate the credibility of the reported information by alternative means.

Project	Key Performance Indicators	Targets
Ward based expanded public works programme projects	9 EPWP/CWP Project completed / supported	1. Farmers' cooperative
		2. 1 Cleaning Project
		3. 1 Recycling Project
		5. Stone crushing projects
		6. 1 Parks maintained project
		7. 1 Sport facilities maintenance project

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x; x; x of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: infrastructure development and KPA 3: local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Unaudited supplementary information

30. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not express an opinion thereon.

Report on audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the Municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

32. The material findings on compliance with specific matters in key legislations are as follows:

Strategic planning and performance management

33. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

Annual financial statements and annual report

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of property, plant and equipment and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

35. A construction contract was awarded to a contractor that was not qualifying for the contract in accordance with section 18(1) of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and Construction Industry Development Board regulations 17 and 25(7A).

Expenditure management

36. Reasonable steps were not taken to prevent unauthorised and irregular expenditure as required by section 62(1)(d) of the MFMA.

Other information

37. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
38. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
39. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

41. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

42. Internal controls and accounting officer's review were not effective to neither detect nor prevent the risks of material misstatements to the financial statements and annual

performance report as well as compliance with legislation which resulted in the audit effort to identify misstatements. The slow response by leadership and its inability to follow a pro-active approach in improving audit outcomes have resulted in numerous material misstatements identified by the audit.

Financial and performance management

43. Management did not implement sound record management processes ensuring that, complete, relevant and accurate information is readily accessible and retrievable when required for verification. This resulted in delays on the review of the performance report.
44. Action plans for the implementation of audit recommendations was also not adequately monitored, resulting in a recurrence of material audit findings.

Other reports

45. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
 - Investigations relating to allegations of irregularities on supply chain management and project management were commissioned by the council. At the date of this report the investigations were still on-going.

Auditor-General

Polokwane

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the [consolidated and separate] financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related